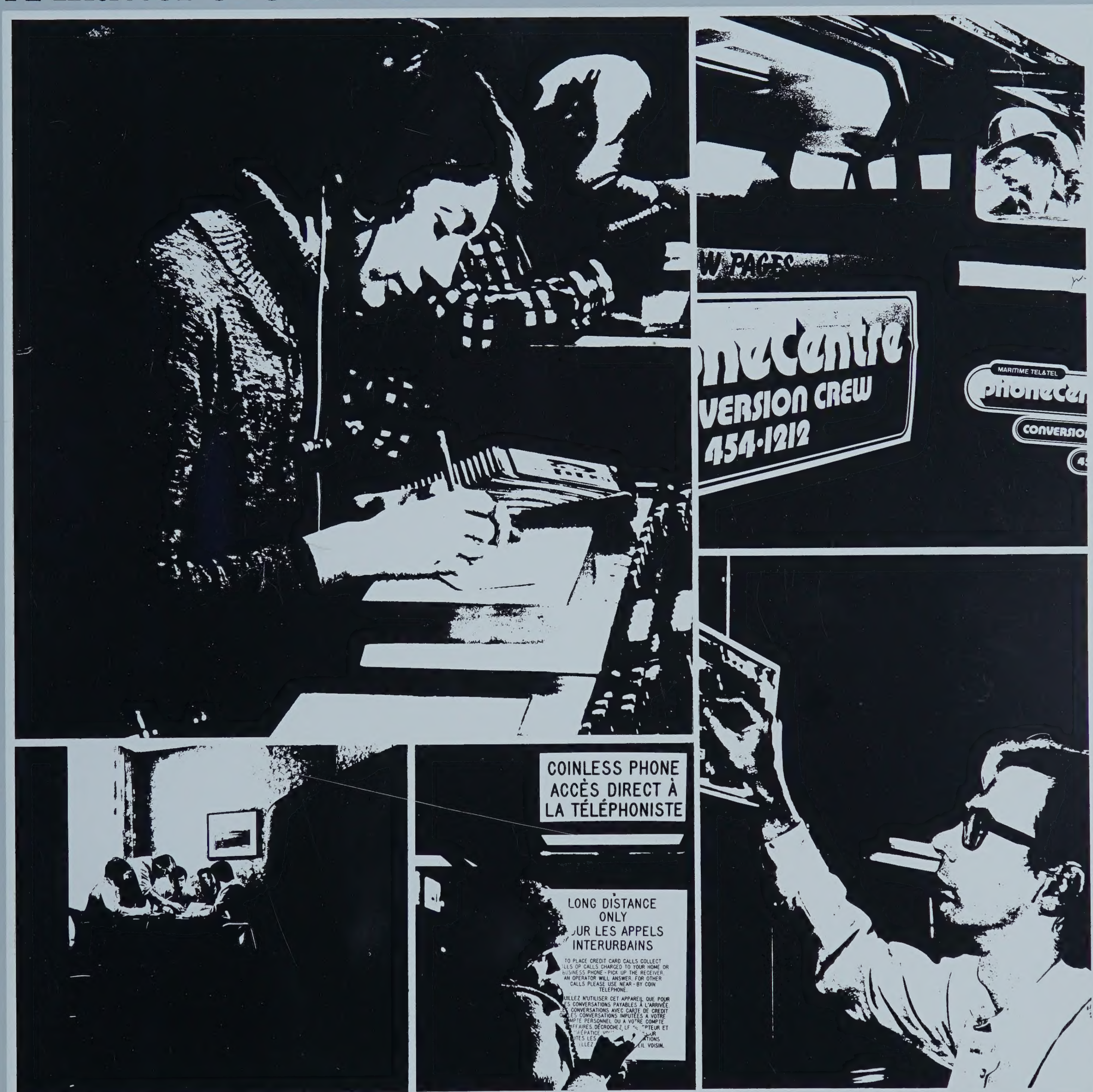
A matter of service . . .



the 1978 Annual Report of Maritime Telegraph & Telephone Company, Limited

1978 Annual Report
of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office: 1505 Barrington Street
P.O. Box 880, Halifax, Nova Scotia
Canada B3J 2W3
Telephone (902) 421-4311

NOTICE OF ANNUAL MEETING

The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, Maritime Centre, 1505 Barrington Street, Halifax, N.S. on Tuesday, the 27th day of March, 1979, at 11:30.

The 1978 Annual Report is a summary of the operations of the Company in its 69th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

STOCK REGISTRAR

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia is the Registrar for 7.0% preferred.

Canada Permanent Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares of the capital stock of the Company.

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares listed:

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices
(December 22, 1971)

Common shares	$22.13
7% preferred shares	$ 9.63

STOCK TRANSFER OFFICES

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street Halifax, Nova Scotia (common shares, 7.0% preferred shares, 7.10% preferred shares, 8.60% preferred shares, 9.40% preferred shares and 7.65% preferred shares).

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred can also be transferred at the offices of Canada Permanent Trust at the following locations:

600 Dorchester Blvd. West
Montreal 101, Quebec

20 Eglinton Ave. West
Toronto 1, Ontario

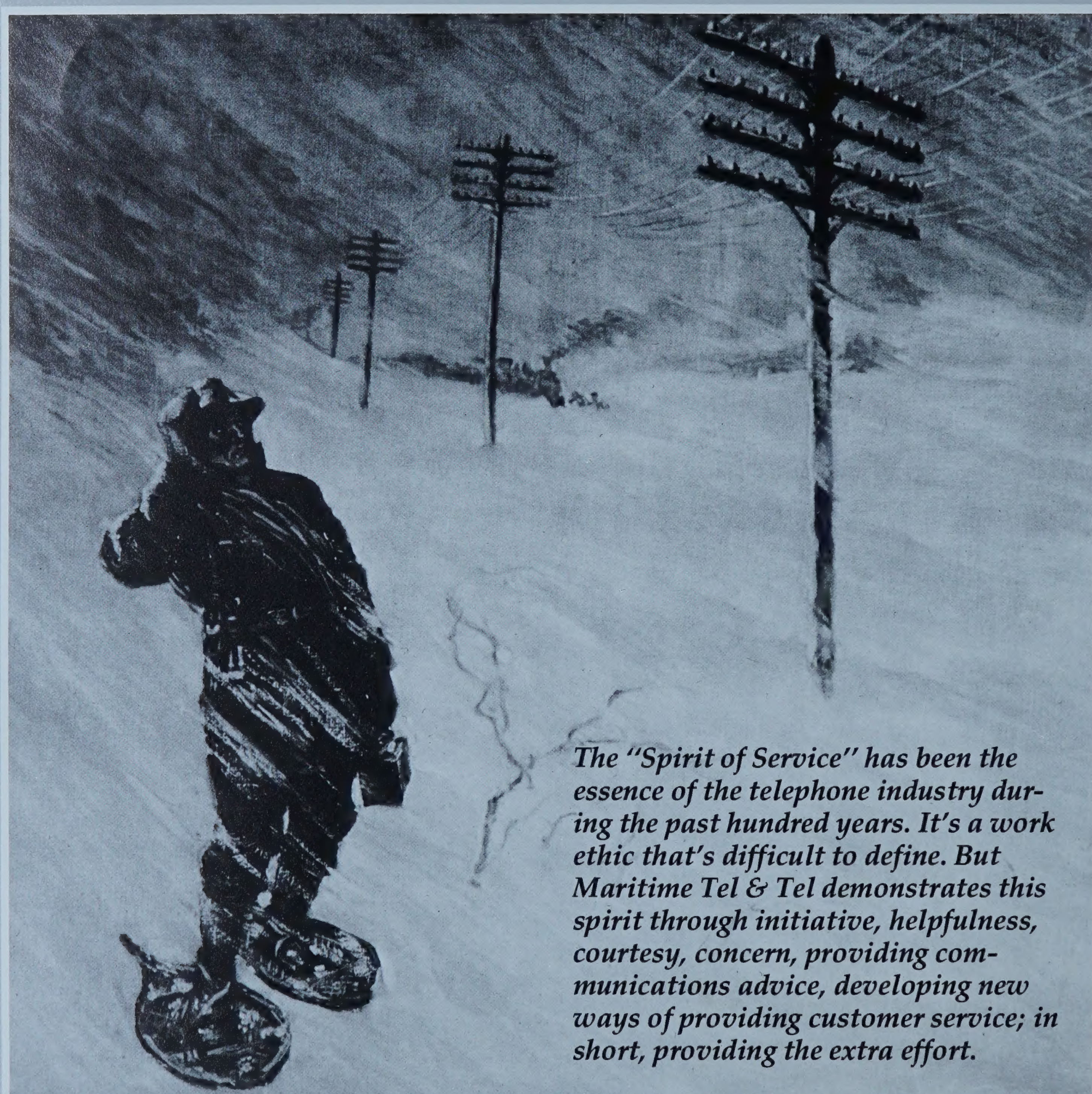
433 Portage Avenue
Winnipeg, Manitoba

1778 Scarth Street
Regina, Saskatchewan

315 Eighth Avenue, S.W.
Calgary, Alberta

701 West Georgia Street
Vancouver, British Columbia

A matter of service . . .



The "Spirit of Service" has been the essence of the telephone industry during the past hundred years. It's a work ethic that's difficult to define. But Maritime Tel & Tel demonstrates this spirit through initiative, helpfulness, courtesy, concern, providing communications advice, developing new ways of providing customer service; in short, providing the extra effort.

FROM THE PRESIDENT

Dynamic changes have occured in the nineteen seventies, and we have concurrently been learning to harness technology to enhance our quality of life and to extend business productivity and efficiency. The telecommunications industry has been in the vanguard, with breakthroughs in such areas as satellite communication, fibre optics, the picture phone, and the electronic phone.

The industry has demonstrated its ability to lead communications development and to provide the high standard of service which our customers have come to expect, indeed demand.

In 1978 we demonstrated our emergency communications readiness during an oil spill simulation in Cape Breton; met the challenge of clear, efficient communications for some 600 fishermen on Nova Scotia's South Shore with a unique Community Repeater Service for Marine Radio; and put in service in Amherst a "stored program" SP-1 computerized switching office for both local and long distance calling — the second such installation in the province.

We moved into the area of carry-home phones by beginning conversion of houses and apartments in Halifax to a plug-in system. With this service, customers can pick up a phone at one of MT&T's PhoneCentres, take it home and plug it in, saving both customers and the Company time and money in service calls.

As well, we continued with service improvement programs, tying communities together in Extended Area Service plans (eliminating long distance charges between communities) extending Base Rate boundaries within which customers do not pay a monthly mileage charge; equipping central offices for Automatic Number Identification for customers placing DDD calls, and making Touch Tone service available to customers — whether private or party-line — in all areas of the province.

These demands for new and improved services, along with growth of the network, required a $49,508,000 capital investment in 1978. To meet these costs and continue our program of service improvements the Company applied on January 13, 1978, to the Board of Commissioners of Public Utilities for the Province of Nova Scotia for an increase in our rates and charges.

Following public hearings the Board approved rate changes, effective June 15, 1978, that would increase annual revenues an estimated 2.7 per cent.

Rates of return on average invested capital and average common equity were 10.5 per cent and 13.1 per cent, respectively, up from 10.1 per cent and 12 per cent a year ago. Earnings per average common share rose to $2.74, compared to $2.41 in 1977.

It is expected that a further improvement in earnings will be achieved in 1979, and that it will not be necessary to seek an increase in rates during the year.

Struan Robertson

Struan Robertson
President and
Chief Executive Officer

Halifax, N.S.
February 16, 1979

New $4.5 million Amherst switching center

DIRECTORS' REPORT

The campaign to expand customer services throughout the province during 1978 can perhaps best be described as an extra effort.

In Amherst, final installation and testing procedures of a new local and long distance switching center were completed for an in-service date in November.

Province-wide Touch Tone service

Many changes in services to residence customers, were introduced in 1978, the most notable being the provision of Touch Tone telephone service to customers — whether private or party-line — in all parts of the province.

MT&T is the first Canadian telephone company to equip all its exchange offices to provide push button calling. This precipitated a demand that even the most experienced Company forecasters could not foresee. It became obvious that Touch Tone services are an addition welcomed by many Nova Scotians.

Overall, there was a net gain of 17,236 Touch Tone phones, an increase of 70.7 per cent over the previous year.

Phones in service increase 4.8 per cent

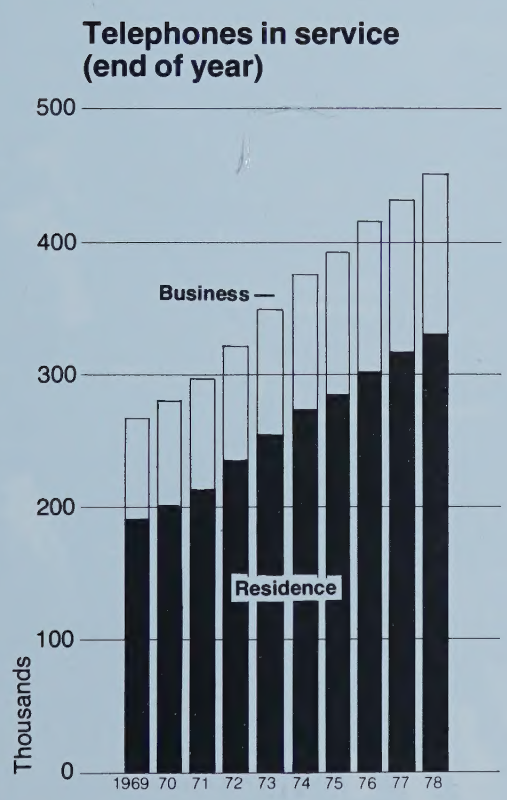
At year's end, the Company had a total of 451,629 telephones in service. This represents a growth of 20,500 telephones or 4.8 per cent.

Gains in residence services represented 75

PhoneCentre conversion crews start wiring homes for plug-in phones

per cent of this growth.

As well, 5,154 business phones were installed, including new services and additions to existing systems. Business services now amount to 26.4 per cent of the total telephones in service in the province.



At the end of the year, the per cent of households with private-line service was 82.5. Overall, the number of telephones per 100 population stood at 53.4, up from 51.6 a year ago. Nationally the average is 55.2.

Ten work orders for each phone gained

With an increase in telephones in service there is a corresponding increase in the number of service orders worked to achieve the gain. There were 195,100 work orders completed in 1978,

Of these, 86,900 were for removals of services, and 108,200 for installations in other premises — or 10 orders worked for each additional phone added to the network.

PhoneCentre wiring begins

It is in the area of residence telephone installation that MT&T initiated a major change in the way it will do business in the future.

The Company has initiated a program to install outlets in homes and apartments to provide plug-in phone service. PhoneCentre installers will move throughout the greater Halifax-Dartmouth area in a pre-established pattern based on customer mobility (as high as 52 per cent annually in some areas).

Each residence is equipped, at no charge, with four telephone outlets.

The Company's Phone Store in Scotia

Operators learn new system for recording billing information

Square, is being completely renovated, and will re-open in the spring of 1979 as one of the new PhoneCentres for the metro area.

Efficiency for both customers and Company

Once a customer's residence is provided with telephone outlets it's then simply a matter of visiting the PhoneCentre to establish new residential service, exchange phones for ones of different color, or style, and have sets repaired. Service connection at the central office usually takes place the same day.

The customer can take the set home from the PhoneCentre and plug it in — there's no need for an installer visit. It's a program that works efficiently and effectively for both the customer and the Company.

Reaction of customers to this concept has been enthusiastic. In fact, following initial information announcements many customers are calling for appointments immediately.

Calls again exceed billion mark

For the third successive year, more than one billion calls were placed by MT&T customers. Of these, more than 38.4 million were long distance calls, an increase of 10.0 per cent. Direct Distance Dialing continued at a high level, with 85.0 per cent of all long distance calls being DDD.

Operators learn to write for OCR

The Company introduced a new system of coding and timing operator-assisted calls which were also on the increase during 1978. To facilitate this system operators throughout the province had to learn how to write numbers all over again to utilize Optical Character Reading (OCR).

The new OCR tickets required a uniformity of all hand written numerals. The tickets — which carry billing details — are optically read by computer, saving the key punch step previously required for computer entry.

Coinless phones introduced

And there was a surprise in store for people who found themselves at the Halifax International Airport wanting to

Coinless telephones at Halifax International Airport

reach an operator but without a dime — the coinless phone.

The customer simply lifts the receiver, an operator answers and, once billing arrangements are completed the customer's call is speeded on its way.

These phones are now also in use at CFB Cornwallis and evaluation of usage and customer reaction indicates more of these phones will soon be placed in service in other areas of the province.

Technical Assistance Center grows

To monitor and check the performance of the telephone network and to maximize its maintenance ability the company expanded its Technical Assistance Center (TAC) at the Halifax Toll Office.

The center monitors the workings of 10 unattended telephone switching offices throughout Nova Scotia and, on a contract basis, six offices in other parts of Atlantic Canada.

When there's a circuit problem in one of the offices, a message transmitted via teletype machine from the TAC will take the faulty circuit out of service until it can be repaired.

These improvements in efficiency and effectiveness were paralleled by customer service improvements throughout Nova Scotia.

Service improvements continue apace

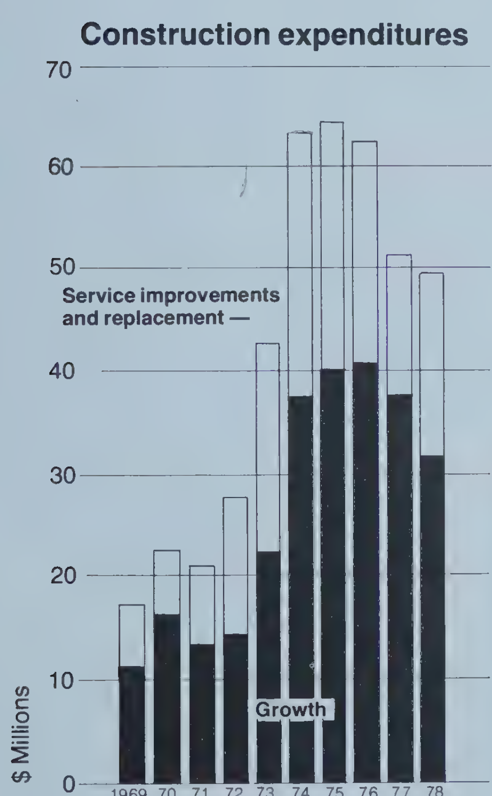
"Flat rate" calling — eliminating long distance charges — was provided in a three-way community calling plan in Noel, Maitland, Kennetcook; and for customers placing calls between Merigomish-New Glasgow, Kenzieville — New Glasgow; Liscombe-Sherbrooke; and Country Harbour-Goldboro.

"Core" calling areas — those in which monthly mileage charges for exchange service are eliminated — were enlarged in 11

Technical Assistance Center monitors unattended offices

exchange areas: Canning, Debert, New Glasgow, Musquodoboit Harbour, Sydney Mines, Cheverie, LaHave, Kingston, Clarkes Harbour, Halifax and Truro.

It was at the time of the Truro Base Rate extension that MT&T added 217 new customers when it assumed service responsibilities for one of the last rural telephone companies in the province, the Greenfield Mutual Telephone Company.



The need for an operator to come on the line to record the calling number on a DDD call was eliminated with the introduction of Automatic Number Identification in seven communities: Port Hawkesbury, Chester, Elmsdale, Springhill, Bridgetown, Westville, and Hubbards.

New line-fill objective set

The Company continued to achieve gains in its plan to reduce the number of people sharing rural party lines. The previously stated objective of a maximum of six customers per line has been reached and the Company is now aiming at reducing this maximum to four per line during the next five years.

Engineering group for Bridgewater

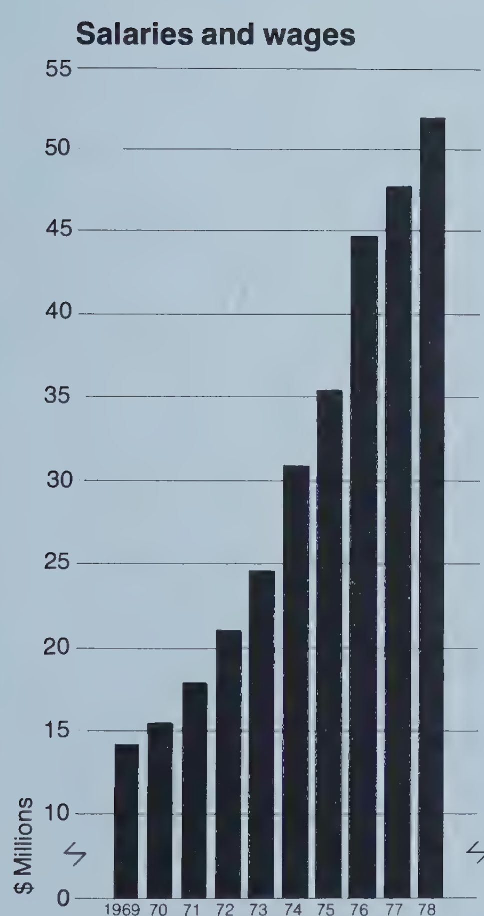
In two other communities MT&T expanded engineering and service facilities. In Bridgewater, an Outside Plant Engineering group was established. The 12 employees who make up this group assumed responsibility for the South Shore area of the province. Outside Plant Engineering for this region had previously been supplied by staff in Middleton who are now fully occupied with the Valley area.

New service center in New Glasgow

In New Glasgow a new service center was opened. In a recently acquired and renovated building the Company now houses its Outside Plant Engineering Group for the

Control Center for Datapac network

Northeast area of the province, as well as, Marketing, Construction, Installation and Repair, Supplies, and Vehicle Maintenance.



MT & T acquires ET & T microwave system

During the year the Company completed purchase arrangements for the assets of Eastern Telegraph and Telephone Limited which owned and maintained a heavy route microwave system in Nova Scotia for the transmission of overseas calls for its parent company, American Telephone and Telegraph Company Limited.

Negotiations for the acquisition were conducted with AT&T, Teleglobe Canada, and European telecommunications agencies which also had an interest in the transatlantic facility.

MT&T is continuing to operate the system and is now leasing circuits for the transmission of overseas calls. As well, Company engineers are working on plans which will utilize the extra capacity of the system for local digital communications.

Employee ranks grow

As part of the purchase, 12 former ET&T employees were added to MT&T's ranks. Total Company employment now stands at 3,551, up from 3,448 at the end of 1977.

Wages and salaries, at $52.0 million, increased by 8.7 per cent over the year before. In addition, benefit and welfare costs (about 18.3 per cent of total salaries) were $9.5 million.

These benefits include $7.1 million paid by the Company to the non-contributory pen-

Planning future customer service.

sion fund, $1.2 million for sickness, accident, group insurance benefits; $579,000 to the Canada Pension Plan; and $663,000 to Unemployment insurance.

Solid performance by MT&T people

The performance of MT&T people was favorably noted not only by customers requesting regular telephone service but by customers needing sophisticated computer data transmission facilities.

During the September provincial election MT&T was asked by the Canadian Broadcasting Corporation to provide the necessary computer communications equipment for its election coverage.

Company employees quickly established service of 36 private-line Dataroute circuits and installed 28 Vucom terminals and 15 teleprinters. This was the largest ever installation of data communication equipment in Nova Scotia.

Data communications market grows

The Company also continues to enlarge its customer base for services such as the cross-Canada "datapac" network — technically known as packet-switching — by which large amounts of data are moved on a shared network.

The development and enhancement of these specialized services will continue throughout 1979 as will the enrichment of "Plain Ordinary Telephone Service".

More new services planned for '79

Early in 1979 the Company plans to appear before the Public Utilities Board to seek approval of Supplementary Local Service.

The program will allow a customer — for an additional monthly timed charge — to add adjacent communities to the existing basic calling area for that customer's exchange.

Continued growth

The increases in telephones and calling, the demands for new and often unique services, and the vitality of the province and its people are favorable indicators for the future of your Company.

For the Board of Directors

Struan Robertson

Struan Robertson
President and
Chief Executive Officer

February 16, 1979

THE FINANCIAL REPORT

REVIEW OF 1978

Earnings

Financial results for the year show a continued annual improvement with earnings per average common share of $2.74, compared to $2.41 in 1977. The rate of return on average invested capital rose to 10.5% from 10.1% and the return on average common equity was 13.1%, up from 12.0% in 1977.

Operating expenses and revenues

Operating revenues for 1978 were $149,206,000, compared to $129,655,000 for 1977, a 15.1% increase. This resulted largely from an 10.0% increase in long distance calling, a 4.8% increase in the number of telephones in service, and revised tariff rates introduced in June 1978. Operating expenses for the year were $99,563,000, compared to $85,979,000 in 1977, a 15.8% increase. Notably, depreciation, the largest single component, was $27,870,000; and maintenance expense related to the ongoing operation and upkeep of the system was $22,940,000.

Financing

To finance its capital expenditure program, the Company must raise funds in financial markets to augment funds generated from internal sources. In 1978, the Company borrowed in the short-term money markets and, because of its currently decreased financing requirements, no further long-term financing is planned until later in 1979. During the year, the $3,500,000, 5¼%, Series "J" bonds matured and were redeemed.

In 1978 and 1979

Earnings moved upwards during the latter half of 1978 as a result of revised tariff rates — approved in June — and increased customer use of the network. The earnings improvement will likely be sustained throughout 1979 although it will be accompanied by a need for further external financing.

During 1979 it is expected that approximately $20,000,000 will have to be raised, in the external capital markets, in order for the Company to finance the further required expenditures for plant and equipment.

IN BRIEF

	1978	1977
Earnings Per Common Share	**$ 2.74**	$ 2.41
Dividends Per Common Share	**$ 1.60**	$ 1.60
Return on Average Common Equity	**13.1%**	12.0%
Return on Average Invested Capital	**10.5%**	10.1%
Equity Per Common Share, December 31	**$ 21.43**	$ 20.39
Construction Program Expenditures (millions)	**$ 49.5**	$ 51.4
Telephone Plant Per Telephone, December 31	**$ 1 107**	$ 1 070
Telephones In Service, December 31	**451 629**	431 129
Long-Term Debt % Total Invested Capital, December 31	**49.2%**	48.8%
Employees, December 31	**3 551**	3 448
Salaries and Wages (millions)	**$ 52.0**	$ 47.8
Average Common Shares (thousands)	**5 425**	5 304

AUDITORS' REPORT

To the Shareholders of Maritime Telegraph
and Telephone Company, Limited:

We have examined the financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1978 and the statements of income, retained earnings and sources of funds used for construction for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the sources of its funds used for construction for the year then ended in accordance with generally accepted accounting principles which, except for the changes in accounting practices explained in note 1(f) to the financial statements, have been applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Halifax, Canada
January 29, 1979

INCOME STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1978 $	1977 $
OPERATING REVENUES		
Local service	**63 183**	57 293
Long distance service	**81 412**	68 882
Other	**5 452**	4 498
Uncollectible	***841***	*1 018*
	149 206	129 655
OPERATING EXPENSES		
Maintenance	**22 940**	19 840
Depreciation (Note 1 (c))	**27 870**	24 341
Traffic	**8 657**	8 167
Commercial and Marketing	**9 065**	7 836
Administrative	**14 140**	11 386
Pensions and other employee benefits	**6 663**	5 906
Other	**6 012**	4 954
Taxes other than income taxes	**4 216**	3 549
	99 563	85 979
	49 643	43 676
OTHER INCOME		
Allowance for funds used during construction (Note 1(e))	**595**	629
Other (Note 2)	**413**	645
	1 008	1 274
	50 651	44 950
INTEREST		
Bond interest	**13 164**	13 445
Other (Note 3)	**1 639**	987
	14 803	14 432
	35 848	30 518
Income taxes	**16 953**	14 278
NET INCOME	**18 895**	16 240
Preferred dividends	**4 008**	3 435
NET INCOME APPLICABLE TO COMMON SHARES	**14 887**	12 805
Earnings per common share	**2.74**	2.41

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1978 $	1977 $
RETAINED EARNINGS, beginning of year	**32 336**	28 453
ADDITIONS:		
Net income	**18 895**	16 240
DEDUCTIONS:		
Preferred dividends	**4 008**	3 435
Common dividends	**8 681**	8 487
Commission and expenses of issuing capital stock and other deductions	**72**	435
	12 761	12 357
RETAINED EARNINGS, end of year	**38 470**	32 336

D. S. Inkpen
Comptroller

FINANCIAL POSITION STATEMENT
As at December 31

ASSETS

	Thousands of Dollars 1978 $	1977 $
TELEPHONE PLANT (Note 1 (c))		
Depreciable telephone plant in service	**486 401**	439 159
Other telephone plant (Note 4)	**7 826**	15 851
	494 227	455 010
Less accumulated depreciation	**126 793**	105 948
	367 434	349 062
Materials inventory	**5 807**	6 507
	373 241	355 569
INVESTMENTS (Note 5)		
Investments in affiliated companies	**5 767**	5 443
Other investments	**1 154**	934
	6 921	6 377
CURRENT ASSETS		
Cash	**207**	362
Accounts receivable	**22 447**	19 258
Prepayments	**1 821**	1 678
	24 475	21 298
DEFERRED CHARGES		
Unamortized long-term debt expenses	**2 225**	2 373
Other deferred charges	**2 030**	2 025
	4 255	4 398
	408 892	387 642

On behalf of the Board:

Struan Robertson
Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1978	1977
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 6)	55 460	54 249
Premium on common stock (Note 7)	24 920	24 021
Retained earnings	38 470	32 336
Total common equity	118 850	110 606
Preferred stock (Note 6)	48 043	49 734
	166 893	160 340
LONG-TERM DEBT (Note 8)		
First mortgage bonds	141 364	144 864
Bank and other notes	20 000	7 850
	161 364	152 714
CURRENT LIABILITIES		
Accounts payable	10 781	10 276
Income taxes accrued	4 311	4 447
Interest accrued	2 241	2 295
Dividends payable	3 162	3 322
Other current liabilities	791	687
	21 286	21 027
DEFERRED CREDITS		
Income taxes (Note 1 (d))	59 294	53 394
Other deferred credits	55	167
	59 349	53 561
COMMITMENTS (Note 11)		
	408 892	387 642

accompanying notes form an integral part of these financial statements.

G. Archibald
rector

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION

For the Year Ended December 31

	Thousands of Dollars	
	1978	1977
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	150 214	130 929
Less charges requiring working capital (Note 9)	97 949	83 840
Total internal	52 265	47 089
External —		
7.65% preferred stock issue	—	15 000
Bank and other notes	20 000	7 850
Employees' stock savings plan (Note 6)	2 116	1 777
Decrease in materials inventory	700	1 067
Decrease in working capital	—	1 005
Total external	22 816	26 699
Total source of funds	75 081	73 788
Funds used for other than construction—		
Investment in affiliated companies (Note 1(b))	300	910
Redemption of first mortgage bonds (Note 8 (a))	3 500	6 000
Preferred shares purchased for cancellation (Note 6)	1 691	344
Repayment of bank and other notes	7 850	4 370
Increase in working capital	2 918	—
Dividends	12 689	11 922
Other	107	588
Total funds used for other than construction	29 055	24 134
Total funds provided for construction	46 026	49,654
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	48 201	49 896
Cost of removing old plant	1 307	1 528
Construction program expenditures	49 508	51 424
Less charges not requiring working capital		
— Allowance for funds used during construction	595	629
— Salvage and Other	2 887	1 141
	3 482	1 770
Total funds used for construction	46 026	49 654

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) System of accounts:
The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

(b) Accounting for investments in affiliated companies:
The investment in The Island Telephone Company Limited and Maritime Computers Limited is accounted for by the "equity" method.

(c) Accounting for telephone plant:

Telephone plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciating the assets over their estimated service lives and resulted in a composite rate for 1978 of 6.2% (1977, 5.9%).

Materials inventory consists of items which will be used in the construction program.

(d) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences.

(e) Allowance for funds used during construction:
The Company is allowed a return on capital invested in new telephone plant while under construction by including an "allowance for funds used during construction" as an addition to the cost of the plant constructed.

(f) During 1977 the Company made certain changes in the application of accounting principles to bring their accounting practices more in line with other industries. These revisions refer mainly to certain corporate overheads which are not readily identifiable with or do not vary directly with construction of telephone plant. These overheads which would have been capitalized and recovered through depreciation are now charged to operating expense.

The revisions were approved by the Nova Scotia Board of Commissioners of Public Utilities to be effective July 1, 1977, and resulted in an increase charge to expense of approximately $869 000 for the period involved in 1977.

(g) Unamortized long-term debt expenses:
Unamortized long-term debt expenses are being amortized over the duration of the various debt issues.

(2) Other income — includes the Company's portion of The Island Telephone Company Limited and Maritime Computers Limited net income of $497 000 (1977, $611 000), less other income charges.

(3) Other interest — includes amortization of long-term debt expenses amounting to $148 000 (1977, $152 000).

(4) Other telephone plant — consists of land and telephone plant under construction.

(5) Investments — Investments in affiliated companies consists mainly of shares in The Island Telephone Company Limited. At December 31 the Company's ownership is 43.9% (1977, 44.4%). Other investments consists principally of shares in Telesat Canada at a cost of $738 000.

(6) Capital Stock — par value $10 per share

	1978	1977
	Shares	Shares
Authorized:	**14 796 409**	14 965 552

Issued:

	Shares Outstanding at Jan. 1, 1978	Issued For Cash	Redemptions and Purchases of Preferred Shares For Cancellation	Shares Outstanding at Dec. 31, 1978
Common	5 424 893	121 116		5 546 009
Preferred				
7 %	150 000	—	—	150 000
7.10%	803 450	—	12 151	791 299
8.60%	910 000	—	30 867	879 133
9.40%	1 609 975	—	122 500	1 487 475
7.65%	1 500 000	—	3 625	1 496 375
	4 973 425	—	169 143	4 804 282
	10 398 318	121 116	169 143	10 350 291

By orders of the Supreme Court of Nova Scotia to December 31, 1978 the reduction of the Company's share capital from $149 655 520 to $147 964 090 was confirmed.

The Company reserved 135 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued shares to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to 80% of the average market price of the stock.

By amendment to the Company's Act of Incorporation in 1966 any shareholder or group of associated shareholders owning 1 000 or more voting shares (common or 7% cumulative preferred) is limited to 1 000 votes at any meeting of the shareholders.

7% cumulative preferred:
These shares are voting and non-redeemable.

7.10% cumulative redeemable preferred:
These shares are non-voting unless six quarterly dividends are in arrears. The Company shall attempt each calendar year to purchase for cancellation 22 500 shares at or below par. The Company may redeem all or part of the outstanding shares at a premium of $0.50 if redeemed before April 15, 1981; the premium thereafter decreasing $0.10 every 3 years to May 29, 1998.

8.60% cumulative redeemable preferred:
These shares are non-voting unless six quarterly dividends are in arrears. The Company shall redeem 30 000 shares at or below par, on or before May 28th of each year. After May 28, 1979 the Company may redeem all or part of the outstanding shares at a premium of $0.70 if redeemed before May 28, 1982; the premium thereafter decreasing $0.10 every 3 years to May 28, 1997.

9.40% cumulative redeemable preferred:
These shares are non-voting unless six quarterly dividends are in arrears. The Company shall redeem 70 000 shares at par on or before April 15th of each year. After April 15, 1980 the Company may redeem all or part of the outstanding shares at a premium of $0.70 if redeemed before April 15, 1983; the premium thereafter decreasing $0.10 every 3 years to April 15, 1998.

7.65% cumulative redeemable preferred:
These shares are non-voting unless six quarterly dividends are in arrears. The Company shall attempt each calendar year to purchase for cancellation 45 000 shares at or below par. After August 22, 1982 the Company may redeem all or part of the outstanding shares at a premium of $0.60 if redeemed before August 22, 1983; the premium thereafter decreasing $0.075 every year to August 22, 1990.

(7) Premium on Common Stock —

	1978	1977
	$	$
Beginning of year	24 021 000	23 456 000
On shares issued during year	899 000	565 000
End of year	24 920 000	24 021 000

(8) Long-term debt —

(a) First mortgage bonds:

Series	Rate	Maturing	Principal
K	5½%	November 1, 1980	4 000 000
L	5½%	June 15, 1983	5 000 000
M	5½%	May 1, 1985	7 000 000
N	6½%	March 15, 1987	10 000 000
Q	9¼%	June 1, 1990	1 364 000
R	8⅜%	May 1, 1991	12 000 000
T	8¾%	December 15, 1993	20 000 000
S	8⅝%	August 1, 1994	12 000 000
U	10¾%	November 1, 1995	20 000 000
V	11 %	June 15, 1996	25 000 000
W	10¾%	March 15, 1997	25 000 000
			$141 364 000

All the real and immovable property, shares and securities owned by the Company are pledged by a first fixed and specific mortgage and charge as security for the Bonds. The Trustee for the Bondholders also has a first floating charge on all other property of the Company both present and future.

(b) Bank and other notes $20 000 000.

In order to permit the Company to time its issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(9) Charges requiring working capital —

	1978	1977
	$	$
Operating expenses, interest and taxes	131 319 000	114 689 000
Less charges not requiring an outlay of working capital during the period		
— Depreciation	27 870 000	24 341 000
— Deferred income taxes	5 900 000	6 872 000
— Other	519 000	483 000
	34 289 000	31 696 000
	97 030 000	82 993 000
Add credits not producing working capital		
— Allowance for funds used during construction	595 000	629 000
— Other	324 000	218 000
	919 000	847 000
	97 949 000	83 840 000

(10) Pension Fund —

Pension Fund Obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1978 amounted to $7 100 000 (1977, $6 570 000). The actuarial reviews as of December 31, 1976, based on earnings and service to that date, show that all vested benefits are fully funded.

(11) Commitments —

Leases:

(a) The Company leases space in Maritime Centre with annual rental payments of approximately $1 527 000. The agreement expires in 1997 and the Company has an option to extend the term of the lease to the year 2002.

(b) The Company leases its tenant improvements in Maritime Centre. This agreement calls for annual rental payments of approximately $285 000 and expires in 1987.

(c) The Company leases a substantial number of telecommunication circuits in the ordinary course of its business for which it pays annual rents of approximately $198 000.

(d) The Company leases computer equipment at an annual rental of approximately $483 000, the contract expiring in 1979.

(e) The Company has several agreements with regard to the Telesat Communications Satellite, Anik 1 with respect to circuit leases through the Trans-Canada Telephone System for which it pays an annual rental of $192 000.

(12) Anti-Inflation Act —

The Company is subject to the Anti-Inflation Act which provides authority for the imposition of Anti-Inflation restraints from October 14, 1975. The Act and the guidelines thereunder control profit margins, prices, dividends and compensation. The Anti-Inflation Act contains special provisions relating to the application of the guidelines to companies whose prices or profit margins are subject to approval by regulatory bodies. The Company is subject to regulation by the Nova Scotia Board of Commissioners of Public Utilities.

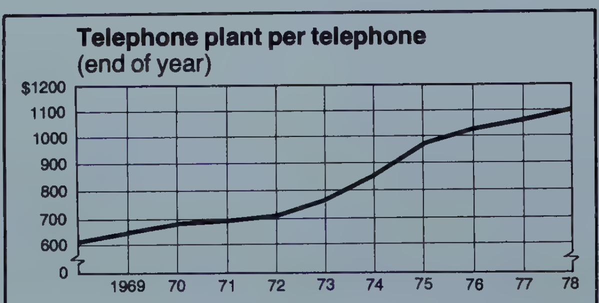
Section 4.1 (1) of the Anti-Inflation Act provides that any body that establishes or approves the prices or profit margins of any supplier to whom the guidelines apply shall, in exercising its powers, apply such guidelines as are applicable in the circumstances, modified to such extent, if any, as in the opinion of the body, is necessary to take into account the particular facts of the situation.

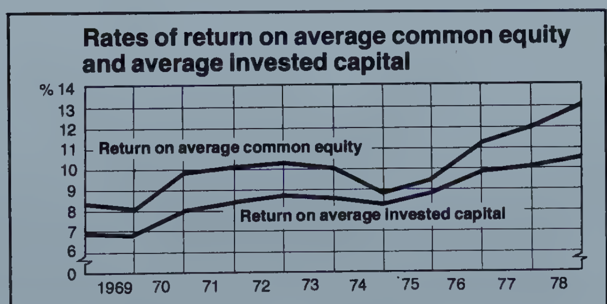
The restraints terminate December 31, 1978.

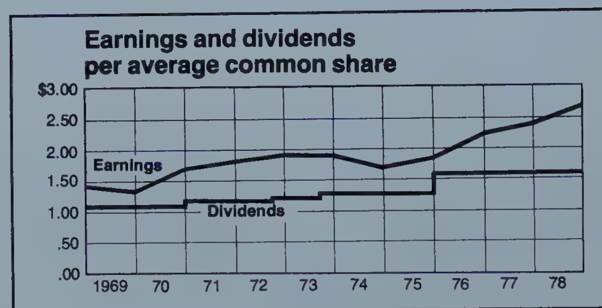
Management is satisfied that the Company has complied with the legislation and regulations thereunder.

THE YEARS IN REVIEW

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Financial Position at December 31 (in thousands)										
Telephone plant	**$500 034**	$461 517	$427 211	$378 857	$323 444	$267 627	$230 123	$205 984	$190 400	$174 552
Accumulated depreciation	**126 793**	105 948	95 453	85 149	73 706	66 462	59 465	51 758	46 892	42 767
Investments	**6 921**	6 377	5 149	4 430	4 083	6 608	6 379	3 588	3 548	2 772
Current assets	**24 475**	21 298	18 523	22 214	16 107	11 449	8 875	9 921	7 548	7 004
Deferred charges	**4 255**	4 398	3 725	2 947	2 249	1 635	1 433	1 091	953	705
Shareholders' equity	**166 893**	160 340	140 026	120 177	100 892	88 600	84 541	72 104	68 957	65 942
Long-term debt	**161 364**	152 714	155 234	150 164	125 000	95 690	74 700	72 150	65 650	55 650
Current liabilities	**21 286**	21 027	17 247	13 712	12 860	9 933	7 113	5 220	5 788	6 795
Deferred credits	**59 349**	53 561	46 648	39 246	33 425	26 634	20 991	19 352	15 162	13 879
Income (in thousands)										
Operating revenues and extraordinary items	**$149 206**	$129 655	$111 695	$ 90 621	$ 73 469	$ 62 153	$ 54 892	$ 48 325	$ 43 986	$ 38 390
Operating expenses and other taxes	**99 563**	85 979	74 754	62 484	50 806	41 180	35 845	30 877	27 674	25 231
Other income	**1 008**	1 274	1 760	2 249	1 381	995	810	675	567	314
Interest	**14 803**	14 432	14 056	11 677	8 473	6 024	5 076	4 574	3 758	2 958
Income taxes	**16 953**	14 278	11 224	8 141	7 275	7 530	6 650	6 401	6 514	5 282
Net income for year	**18 895**	16 240	13 421	10 568	8 296	8 414	8 131	7 148	6 607	5 233
Statistics — at December 31										
Telephone plant per telephone	**$ 1 107**	$ 1 070	$ 1 030	$ 965	$ 854	$ 766	$ 711	$ 692	$ 682	$ 648
Equity per common share	**$ 21.43**	$ 20.39	$ 19.79	$ 19.98	$ 19.66	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10
Embedded debt cost	**9.3%**	9.2%	9.2%	8.8%	8.2%	7.6%	7.3%	6.8%	6.1%	5.4%
Long-term debt % total invested capital	**49.2%**	48.8%	52.6%	55.6%	55.3%	51.9%	46.9%	50.0%	48.8%	45.8%
Employees	**3 551**	3 448	3 447	3 526	3 466	3 152	2 877	2 649	2 529	2 469
Telephones in service	**451 629**	431 129	414 855	392 441	378 823	349 590	323 762	297 877	279 268	269 211
Dial telephones	**100%**	100%	100%	98.6%	98.1%	96.0%	94.9%	92.1%	90.8%	90.5%
Statistics — for year										
Earnings per common share	**$ 2.74**	$ 2.41	$ 2.27	$ 1.89	$ 1.75	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37
Dividends per common share	**$ 1.60**	$ 1.60	$ 1.60	$ 1.30	$ 1.30	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10
Times bond interest earned — before taxes	**3.8**	3.3	2.9	3.0	3.2	4.1	4.1	4.3	5.1	5.2
Times bond interest earned — after taxes	**2.6**	2.3	2.1	2.2	2.3	2.7	2.7	2.8	3.1	3.2
Return on average invested capital	**10.5%**	10.1%	9.8%	8.9%	8.4%	8.6%	8.7%	8.4%	8.0%	6.9%
Return on rate base	**8.6%**	8.3%	8.0%	7.4%	6.7%	7.4%	7.6%	7.4%	7.3%	6.2%
Return on average common equity	**13.1%**	12.0%	11.3%	9.5%	8.9%	10.1%	10.4%	10.2%	9.9%	8.1%
Construction program expenditures (in thousands)	**$ 49 508**	$ 51 424	$ 62 635	$ 64 477	$ 63 889	$ 42 619	$ 27 912	$ 21 518	$ 22 606	$ 17 748
Average common shares (in thousands)	**5 425**	5 304	4 574	4 110	4 024	3 961	3 907	3 854	3 796	3 743
Salaries and wages (in thousands)	**$ 51 992**	$ 47 836	$ 44 365	$ 35 263	$ 30 701	$ 24 651	$ 20 968	$ 17 724	$ 15 684	$ 14 001
Average daily toll messages (in thousands)	**105**	96	87	82	73	63	55	48	42	38







Maritime Telegraph & Telephone Co Ltd

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*Member of Audit Committee

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Manager

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interim report

second quarter / 1978

Maritime Telegraph & Telephone Co., Ltd.

File

to the shareholders:

Effective June 15, the Board of Commissioners of Public Utilities for the province of Nova Scotia approved increased rates for in-province long distance service and some basic services that will increase annual revenues by an estimated 2.7 per cent.

The Company's application proposed rates that would enable it to earn a 13.6 per cent return on average common equity. The Board authorized rates designed to provide a return on average common equity of 13.0 per cent. The Company is pleased, however, that the Board did not decree 13.0 per cent as an absolute earnings ceiling. The Company, therefore, will endeavor by further efficiencies and greater customer service volumes to achieve a higher level of earnings.

Results for the first six months of 1978 show earnings per share of $1.26 compared to $1.11 for the same period last year. Return on average invested capital was 10.1 per cent compared to 9.8 per cent and return on average common equity was 12.2 per cent compared to 11.2 per cent for the first half of 1977. Earnings for the full year are expected to be somewhat higher than the level achieved last year.

Long distance calling volumes have increased 10.7 per cent over the same period a year ago, and the number of telephones in service at the end of the period, 439,124, has increased by 4.5 per cent.

The Company continues to experience an increase in the growth of Special Services such as microwave facilities for network and cable television, mobile telephone service, pocket paging and computer communications.

There has also been growth in other types of services. Touch Tone, for example, is now available in all areas of Nova Scotia and has received broad customer acceptance.

Higher local and long distance calling volumes and the growth in telephones in service have necessitated continuing capital additions to the Company's network of terminal, transmission and switching facilities. Capital expenditures have also been required to provide a range of service improvements such as ''flat-rate'' calling plans between neighboring communities, enlarged ''no-mileage'' core calling areas, automatic number identification of Direct Distance Dialed calls, and the reduction of customers sharing rural party lines.

These capital expenditures for the year to date have totalled $23.4 million, compared to $23.2 million for the same period last year; for the full year it is expected that capital expenditures will be $51.4 million.

Currently the Company is moving toward the introduction of the Phonecentre program in urban centres with high customer mobility where homes and apartments would be pre-wired — at no charge — with a minimum of four locations where newly-designed ''jacks'' or outlets would be installed. From then on, customers who wished to establish new service, or change the style of phone to another style, or add an extension, would visit the Phonecentre, select the set desired, take it home and plug it in.

With people changing residences — on average — every four years in major urban areas this program will achieve an increase in efficiency of operations for the Company and provide an added measure of convenience to customers.

Struan Robertson

Struan Robertson
President

Halifax, Nova Scotia
July 28, 1978

condensed financial position statement

		(Thousands of Dollars) As at June 30th	
		1978*	1977
		$	$
Telephone plant		**477 888**	441 881
Accumulated depreciation		**113 433**	100 538
Investments		**6 757**	5 302
Current assets		**22 376**	21 300
Deferred charges		**4 370**	4 213
Shareholders' equity	— Preferred	**48 108**	34 863
	— Common	**113 082**	106 572
Long-term debt	— First mortgage bonds	**144 864**	144 864
	— Bank and other notes	**15 850**	17 750
Current liabilities		**17 486**	16 356
Deferred credits		**58 568**	51 753

*Unaudited

interim income statement

	(Thousands of Dollars) Three Months Ended June 30th		(Thousands of Dollars) Six Months Ended June 30th	
	1978*	1977	**1978***	1977
	$	$	**$**	$
Operating revenues	**36 425**	32 064	**71 336**	61 209
Operating expenses and other taxes (Notes 1 & 3)	**24 671**	21 010	**48 163**	40 913
	11 754	11 054	**23 173**	20 296
Other income	**327**	321	**648**	707
Income before interest and income taxes	**12 081**	11 375	**23 821**	21 003
Interest	**3 679**	3 703	**7 204**	7 310
	8 402	7 672	**16 617**	13 693
Income taxes (Note 2)	**3 933**	3 549	**7 773**	6 312
Net income	**4 469**	4 123	**8 844**	7 381
Dividends on preferred shares	**995**	745	**2 024**	1 492
Net income applicable to common shares	**3 474**	3 378	**6 820**	5 889
Earnings per average common share	$ **.64**	$ .64	$ **1.26**	$ 1.11
Average number of common shares outstanding	**5 424 893**	5 303 853	**5 424 893**	5 303 853
(Note 1) Includes depreciation of	$ **6 572**	$ 6 083	$ **12 993**	$ 12 000
(Note 2) Consists of:				
Income taxes payable	$ **2 364**	$ 1 789	$ **4 677**	$ 2 837
Income taxes deferred	$ **1 569**	$ 1 760	$ **3 096**	$ 3 475

(Note 3) The Company will apply in the year 1978 to the Nova Scotia Board of Commissioners of Public Utilities for a revision to its depreciation rates; such rates to be effective January 1, 1978. The revised rates, if approved, will result in an increase in depreciation expense of $203,000 for the three months ended June 30, 1978 and $401,000 for the six months ended June 30, 1978. Earnings per share will decrease from $0.64 to $0.62 and from $1.26 to $1.22 respectively. Similarly, depreciation rates approved in December of 1977, effective January 1, 1977, resulted in an increase in depreciation expense of $153,000 for the three months ended June 30, 1977 and $302,000 for the six months ended June 30, 1977. Earnings per share decreased from $0.65 to $0.64 and from $1.14 to $1.11 respectively.

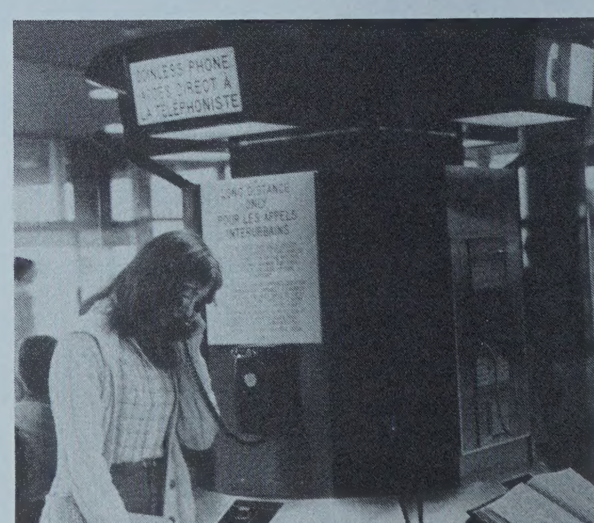
*Unaudited

Province-wide Touch Tone availability was the featured section of the largest exhibit ever constructed by the Company which was on display at the Ideal Home Show in Halifax. The display featured an electronic device which allowed customers to test their Touch Tone dialing speed.

statement of sources of funds used for construction

	(Thousands of Dollars) Six Months Ended June 30th	
	1978*	1977
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**71 984**	61 916
Less charges requiring working capital	**46 795**	42 812
From operations	**25 189**	19 104
Other	**227**	3 743
Total internal	**25 416**	22 847
External —		
Bank and other notes	**15 850**	17 750
Employees' stock savings plan	**1 023**	853
Decrease in materials inventory	**553**	1 076
Total external	**17 426**	19 679
	42 842	42 526
Less funds used for other than construction —		
Redemption of first mortgage bonds	**—**	6 000
Preferred stock purchased for cancellation	**1 627**	216
Repayment of bank and other notes	**7 850**	4 370
Dividends	**6 364**	5 735
Investments	**18**	—
Increase in working capital	**4 619**	3 669
Total application of funds (other than construction)	**20 478**	19 990
Other funds provided for construction	**22 364**	22 536
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**22 661**	22 353
Cost of removing old plant	**751**	868
Construction program expenditures	**23 412**	23 221
Less charges not requiring working capital		
— Allowance for funds used during construction	**305**	346
— Salvage and other	**743**	339
	1 048	685
Total funds used for construction	**22 364**	22 536

*Unaudited



New "coinless" phones were placed in service at the Halifax International Airport. The Company is the first in Canada to install the coinless phone for use by customers wishing to place collect, credit card, or third number billed calls. Phones are the standard wall type used in homes except there is no dial. The customer simply picks up the receiver and an operator answers.